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BANKING SYSTEM—OLD AND NEW.

I have examined the paper of the distinguished gentleman from New York (Mr. Horace White), and if he suggests anything that ought to be in a banking law, which is not in a bill I had the honor to introduce in the House of Representatives, numbered H. R. 10,094, I did not observe it; and if the bill contains anything which he suggests ought not to be in a banking law, I did not notice it. I shall, therefore, use that bill as a basis of my discussion of the subject allotted to me.

A banking system that will not run smoothly under the most adverse circumstances is a banking system not worth considering. A banking system that does not provide for specie payments in normal times and for the suspension of specie payments—a banking system that will not run smoothly under the most intense business commotion and civil strife, is not worthy of attention.

In any other government than ours, it is the minister of finance and men skilled in finance who guide the monetary affairs of the country; in our country they are guided and directed by the whole body of legislators, each one of whom, whatever may be his previous training, is very sure that he knows all there is to know on all questions of finance—and his confidence is sometimes in proportion to his ignorance. No man has a right to present a bill to Congress when he has not a fair chance of success in passing it. In presenting a bill that provides for a national banking system, as in all other legislation, he must present the best bill he can devise that has a reasonable chance of being passed. If the banking system and the banks of the country can legitimately and economically work under it and preserve the national system, we still must take it because of the good there is in the system, even if the bill is in some points objectionable.

Success is a duty in legislation for the single legislator or the legislative body, as much as it is our duty as bankers or merchants.

The Walker bill now before Congress is not such a bill as I would draw had I such authority as is conferred upon the men who manage the finances of Great Britain or France or Germany. There is not enough financial wisdom available and focused, in the every-day Congress of the United States, to devise a banking system such as this country ought to have. It is only an exceptional Congress that will give us a good banking law. We must wait for a national system till that Congress comes, and the system will come, when it comes at all, from the men in a Congress who are sufficiently adroit and conciliatory and popular to have men of both parties assist them in passing the measure. I have very strong hopes that the leading Democrats of the House in the Fifty-third Congress can be persuaded that it is for the political advantage of their party to take up the bill which I have presented and adopt it. It will not be passed purely as a matter of statesmanship, free from all party advantage and political considerations, by either the Democrats or the Republicans. Whenever we get a proper national banking system in this country, it will be through some men in the minority of sufficient skill and popularity on their own side to have it support them, and sufficient ability to draw a bill and persuasive power to convince the majority that it is for its political advantage to have it adopted.

The mechanism of banking, as an occupation, is a great deal easier to learn than keeping a grocery store or running a farm ; but banking, in its administration, in the great concerns with which it has to deal, in the important function which it performs as a part of the commercial system of the country, the great courage that has often to be exercised and the great risks taken, demands the highest type of ability, of courage, and of genius.

I say this, because it might be thought that, as the scheme is simple, it is of little consequence. But the utter

folly is apparent of talking about forty-four independent systems of banking, and of each State developing and maintaining in each successive legislature enough financial wisdom to devise and maintain a sound and economical banking system. We know a bank cannot exist alone, any more than we can sever a finger and have it throb and live and perform its functions alone. Every local bank in this country is a part of "the bank" of this country, and "the bank" is the aggregate of all our banks. It is the same in every other country, and "the bank" of this country is just as truly such as though we had a central United States bank; and every other bank was a branch of this. A bank cannot exist as a unit, as a shoe factory, or a cotton factory, or a woollen factory exists, complete in itself. A bank is as much a part of the current circulation of the country as the bills it issues, as much as the blood in the body is a part of and necessary to life—an inseparable part of the commercial transactions of the country, and no one of them can be insulated. It is a physical impossibility to have State banking systems. It is also a physical impossibility for a national government to issue the paper money and maintain the specie payments of such paper money in a country. It never has been done in any country. It never has been done for a day in this country. It so appears only because the banks have stood at the elbow of the Secretary of the Treasury of the United States, and have conducted the finances of the country through him. The Secretary of the Treasury is powerless without the co-operation of the banks. The hoard of gold that now exists or has existed in the United States treasury has, from the beginning, been sheltered and protected and kept there by the banks, not by any power of the United States Government. If the banks, or any ten of the strongest banks in this country, had said: "We will have that gold, and we will break up this system of specie redemption," it would have disappeared any time in the last thirty years. It is not a system of

which the country ought to be proud. The very existence of the sub-treasury is abnormal, and a threat, as every banker knows, to the existence of every bank and of the whole banking system of the country. It must be trenched upon to wring the money out of it, and practically destroy it at every crisis. It is a struggle for existence between the sub-treasury and the business of the country. Its very existence is in violation of the specific law of the United States that forbids banks and individuals to do what the United States Government is constantly doing, locking up the money of the people, locking up the gold and locking up the currency.* We have, in many respects, the most ridiculous and extravagant financial system in the world, while in many other respects it is the best—of which I have not space to speak further.

The banking institution of a country must be an "institution," a thing whole and complete in itself, with powers of self-defence, in order to have the necessary powers of existence. Now, the banks are absolutely defenceless, and have been during the whole existence of our monetary system. Why? Because they have no means of keeping the measure of value, the gold, in their vaults, or in this country. We are absolutely helpless to keep the gold in this country. If we had a proper banking system, we could cause bonds to be shipped, or securities; as they do in England, rather than to ship gold, simply by raising the rate of discount or lowering it. This is the only conceivable defence that any country has in keeping its coin supply necessary to its banking system from being dangerously trenched upon by any nation that chooses to take it. And yet we stand absolutely helpless in this respect, because shippers of gold can and always do draw their gold not from banks that could defend it, but from the United States treasury, which is defenceless.

[* For a careful account of the results of the existing system see Mr. David Kinley's paper on "The Influence on Business of the Independent Treasury" in the ANNALS for September, 1892, also issued as No. 66 of the Publications of the American Academy of Political and Social Science.—EDITORS.]

We must have a banking system that is whole and complete in itself, absolutely dissevered from the Government—one that the Government has no control over and can put no hand upon, excepting in police supervision. We cannot get it by direct legislation. It must nestle in a bill so obscurely and so quietly, and yet so potently, that it can “grow,” as Topsy did, with the approval of the people and for their benefit; and I think it is in the bill referred to.

Coin is the very life-blood of banking, and if we cannot protect our coin, our banking system is in peril every moment. The only possible way of protecting it is through the banks.

The Walker bill provides for the issue of two classes of currency notes. It provides for their certain payment in case of the failure of any bank. There is not the least difficulty in making the circulating notes of a bank secure as to their final redemption, in many ways. That is incidental to but no part of banking. The thing that makes bank bills good money is the securing and maintaining them at their nominal value in coin value by their “current redemption,” their constant revivification, the constant touching of paper money with the coin dollar, so that it may ever be the equivalent of coin in the commercial transactions of the country. That is the difficulty in keeping paper money “good,” and it is the only difficulty. The various schemes for issuing bank bills (currency notes), providing only for “final redemption,” are mere chaff.

The Walker bill provides that the reserves of a bank shall be in coin or in the notes bought of the Government for coin, which latter bills are not to be less than half the circulating notes that the bank issues. That is to say, the bank is to have its reserve in coin, not less than half in gold coin, or gold coin certificates. The point of counting the coin certificates as coin is simply that the Government has the vaults in which to keep the coin, and can keep it cheaper than the banks can store it, the Government simply issuing coin certificates as custodian of the coin deposited.

The way we have been banking for thirty years is this: We have had notes issued to banks on bonds. The interest and premium on those bonds has, for the last fifteen years, just about equaled what the banks have lost by not being able to avail themselves of earnings on bank reserves as in Europe. Many bankers have failed to see the waste on their reserves. They have lost sight of the fact that their reserve does not earn anything, in the fact that they have had an equivalent in the interest on the bonds they have deposited with the Government to secure the bills issued to them. The Walker bill provides that banks shall have the right (the Government printing them as now) to issue as many dollars in currency as they hold dollars in reserve, and that they shall hold an additional reserve for the currency they issue.

First—This reserve operates in two ways. It is a reserve in coin, as all the banks in Europe hold their reserve in coin, and secondly, banks issue bills to the amount of this coin reserve, as European banks do. The reserve, every dollar of it, is as safe and effective as a reserve, and still is earning just as much as any part of the capital, while it is still held as a reserve. Coin is no more likely to be demanded upon the currency bills which banks issue than it is upon the check that is presented, or any other form of bank liabilities, and is just as effective as though the bills were not issued. The only point in requiring that the bills shall not exceed the reserve is to have a check upon the issue of bills, in order that they never shall exceed their proper limit.

Second—The notes which banks are, by the bill, required to buy of the Government, paying for them in lawful money, either gold or silver, or silver certificates, or in the present greenback, a sum equal to what is issued on the reserve, really costs the bank nothing. It is simply exchanging legal tender money for money that is not "legal tender," though commercially it is its equal, being just as useful to the community in doing its work effectually. The bank of England issues one-third of its currency notes or bills in the same manner. They are not issued on a coin reserve.

This bill provides that half instead of one-third shall be issued by the United States Government, and both classes of these bills shall be the same to the bank and must have the same "current redemption." But if the bank desires to go out of business, or surrender any of these bills, or fails, then the Government is to redeem these bills in coin of equal intrinsic value, of the nominal value of the money which was deposited or paid by the bank for these bills, and the bank itself is to redeem the bills that are issued by the comptroller to the bank and by the bank to the amount of its reserve, the comptroller taking possession of all the assets of the bank and either pledging them or selling them for a sufficient sum to redeem the bills issued by it that are not bought of the Government, and then turning over the balance of the funds encumbered by the loan, to the bank, for it to distribute among its creditors.

No one can tell how many dollars there ought to be per capita, either in coin or currency. We ought to have just that number of dollars per capita in paper money that the people insist upon carrying in their pockets, and that is a dead investment. It is a dead deposit. It lies there, about the same in amount, year in and year out, but there is a profit in issuing it. If I were drawing a banking scheme, with no regard to the opinion of others, I would allow the banks to issue two dollars for one, not buying one-half of the Government; but we never can get the people to adopt that. Another thing, the existing greenback is a menace to the banking system of this country just so long as it exists, and the bill I have drawn provides that, of the money paid to the Government for currency, ninety per cent shall be used to redeem, cancel and destroy the greenbacks of 1865, and that ten per cent of it shall be held as a redemption fund which the Government will hold, at its expense, and not at the expense of the bank, for the "current redemption" of all the bills of the bank. The bank first issues itself just as many paper dollars as it keeps in its reserve. Then it buys of the Government an

equal sum, and ninety per cent of what it pays to the Government is used for redeeming and canceling the old 1865 greenbacks until they are gone, and ten per cent of it is set aside by the Government for the redemption fund the banks now have to keep with the Government to redeem bills, at the expense of the bank.

A banking business is the buying, selling, borrowing and loaning of property, not paper. It is titles to property which banks actually deal in, and of course banks own the property for the time being. When banks discount notes, they hold property in exchange, and to the amount of the note discounted. In its last analysis this is not a process dealing with paper, but banks are the owners of the property in the hands of the merchants all through the country. That is the fundamental fact, and it is necessary that the people should know it. They would then give up the idea that we can make just as much good paper money as we are pleased to issue, which is wholly fallacious. This property in the hands of merchants, owned by banks, neither increases nor diminishes in value while it is owned by them. Banks do these things for a fixed compensation called interest or discount; that is to say, banks temporarily own property in the hands of merchants, but suffer no loss on it, and make no gain. Banks do it for a certain sum agreed upon, while merchants are taking all the risks of the losses and making all the gains.

Third—It is the duty of banks to be at all the expense, trouble and risk of maintaining an unvarying measure or standard of value by which all the wealth or property of the country is measured for exchange, and the United States Government ought to be immediately relieved from that great tax upon the people. That is to say, banks ought to be at the expense and trouble and risk of holding the gold or silver that is the measure of value, and not the United States Government—the people. As a compensation for that service, it ought to be earning banks an income all the time. Banks issue a form of title to the property of the bank,

entitled bank notes or "paper money" for the convenience of persons whose transactions are too small for them to use drafts or checks, but they are precisely the same as drafts or checks to those who use them. There is nothing distinguishable between a bank note and a draft or check, except that the bank note is transferred in payment without endorsement. It is a title to the property of the bank, as a check or draft is a title to what the maker has on deposit in the bank. That is all the difference there is between a bank note and a check, draft or anything else, either in custom, in law or in equity.

Fourth—The performance of these functions constitutes the bank a medium of exchange of all titles to all the property exchanged, excepting that exchanged for coin or in barter. This makes banks inter-dependent, and each a branch of the completed whole—"The bank" leaving no room for State banks.

The volume of currency or the volume of coin needed in a country can be determined only by trial. England has determined by trial that the visible coin she needs is only about \$100,000,000, while we have \$330,000,000 in visible gold, besides all our silver coin!

The coin we need is what the people carry in their pockets and what we need for the reserve in our banks. Now, with reference to the issue of money up to limit of the reserve, it has been repeatedly proved, as Mr. White shows, that a safety fund makes a note as safe as bonds make it, as to its sure final redemption, if the bank fails. All our business is conducted on the doctrine of chances. We run all our railroad trains on the doctrine of chances. And this bill is drawn on human lines and provides for a tax on the currency notes issued by the banks up to their reserves of one-twentieth of one per cent, to be held in the United States treasury as a guarantee fund for the redemption of the bills issued by the banks up to the limit of their reserve, provided the Comptroller should find that the property available, of any bankrupt bank, is not sufficient to redeem the bills it has outstanding. This

tax each year will make a fund four times as large as the people would have lost on the average each year on bank bills in the last thirty years, had there been no bonds held to secure them.

The present national system is necessarily doomed to disappear. Some other scheme must be devised, or we can have no national currency. The system developed in the bill H. R. 10,094 is fully a hundred per cent better than the present, because bonds have nothing to do with money. They are entirely extraneous to it, as much as the color of the hair of the president of the bank. They necessarily have nothing to do with banking, and never should have, because it confuses both bankers and the plain people, and the people have very naturally and justifiably gotten it into their heads that the banks are getting interest on their bonds and then returning the bonds to the custody of the Government, and so getting interest on the bills issued on them, the bank thus getting double interest on its bonds. Congress never will continue that system.

Coin in this country is earning nothing—absolutely nothing. It has not earned a farthing for thirty years, under the action of the United States banking law. At four per cent on \$1,000,000,000 silver and gold coin, there is \$40,000,000 absolute waste annually. We might continue issuing notes on United States bonds, did we have them, which might be the equivalent of earning on this coin to a certain extent; but that is not banking, much less independent, and therefore safe, banking. We have now, I believe, only \$150,000,000 issued on United States bonds; of course we are losing interest on the balance of \$850,000,000. Every dollar of our visible coin ought to be earning just as much as any other part of the property of banks.

Section 2 of the bill provides for the incorporation of the bank practically as now. The powers given the Comptroller in the bill are considerably increased. Had we not had the experience for thirty years of the tremendous powers that the Comptroller already has conferred upon him, I might

have hesitated. But there never has been a lisp of criticism of the Comptroller's exercising his great powers when he ought not to do so, though he has been severely criticised time and time again for not exercising them.

The first is to issue to and compel banks under certain circumstances to take notes of the Government and pay the Government for them. That is a provision that never would be resorted to except in the case of a great exigency. For instance, during the Civil War, banks in certain sections, in order to embarrass the Government, might have surrendered, or attempted to surrender, or refused to take its currency notes. The next is that the Comptroller's consent must be obtained to the banks surrendering its notes, or surrendering its charter, or lessening its capital, and all of those powers he now has. The third gives him power to close up a bank if he has reason to believe that the bank's currency notes issued up to its reserve may be defaulted.

The bill also provides for a board of experts—advisors to the Comptroller. That provision, for a board of experts as contemplated in the bill, if it did nothing else, would strongly tend to a solution of our coinage and banking difficulties even under our present system.

“That there is hereby constituted and appointed a board of advisors of experts to the comptroller of the currency upon changes desirable in and methods of executing existing law concerning banking, consisting of the comptroller of the currency, who shall be a member *ex officio* and president, and the president of the chief redemption bank in each of the five chief redemption cities in the country, or such substitute for any one of the officers named as he shall from time to time appoint, which board of advisors shall meet once a year, or oftener if the comptroller of the currency or a majority of the board so determines, at such a time and place as the comptroller shall appoint. The decision of the secretary of the treasury, from time to time, as to what person is entitled to act under this section, shall be final.”

In this section is provided a board of directors of the whole national banking system, of men who, from their position, naturally should constitute that board. By their decisions, only as recommendations, it would not be ten

years before our whole banking system would have all the advantages of a great central national bank with every other bank a branch, without its disadvantages.

The bill also provides for the gradual, natural and complete separation of the banking system of the country from the Government, by a provision in the bill, giving the Secretary of the Treasury the right to carry this out, at his option. The bill provides that whenever the Secretary of the Treasury chooses to do so, he may deposit the money and devolve the duties of current redemption on a redemption bank, or on the redemption banks. If this bill becomes a law, within ten years, without the people knowing that the slightest change has been made, and to their great advantage and approval, our Government would cease to have anything to do with holding coin or redeeming currency, or have any responsibility for banks other than police supervision and as a business establishment. The Government of the United States cannot safely touch the coin or the banking in the country, except as it is itself essentially a bank, and subject to all the conditions of banking and of banks. Banking is something that either must be done altogether or let alone altogether.

The substance of the bank reserves are to be gold, silver and the government notes bought under Section 4. No less than half must be in gold, no more than half may be in silver and a tax must be paid on that part in bills issued under Section 4. If the silver or silver certificates exceed the gold or gold certificates, they are counted as government notes issued under Section 4, which are the government notes bought of the Government and for which the Government is finally responsible. If they have the reserve in the government notes issued under Section 4, they are to be taxed two per cent on that part of their reserve held in such notes while they hold them. This is so arranged that in case of the suspension of specie payments, or of a bank getting into difficulties and wanting to bridge them over, then, if it will pay two per cent, it can use this further kind of reserve ; otherwise

not. This is a very conservative, and a very necessary provision.

The bill permits the bank to issue notes to the amount of the reserve "held" during any consecutive six months. The reserve "held" is now about \$500,000,000, in round numbers, and the reserve required in cash, "cash reserve," is now about \$300,000,000. The Comptroller of the Currency can allow a bank to issue notes to the amount that it "held" in any six months in the previous year, and he can reduce it any time he chooses to the amount "held" in any other six months of the previous year. With the board of directors, for which the bill provides, watching and recommending, it goes to the securing of the elasticity of the currency, which can be utilized to any amount, varying from \$125,000,000 to \$200,000,000 as the people desire to move their crops. If this bill were law, banks would run their reserves up when the people did not need so much currency, and would run their reserves down when the people most needed funds, and we should get an elasticity of \$200,000,000 without the intervention of any bond securities. Mr. Windom's scheme was to have a United States two per cent bond which anybody could buy at any time, and which the Government would buy back at any time and which could be deposited with the Government at any time to again receive currency upon. That scheme could not be gotten through Congress, however good it is, and as I have said, we have no right to spend our time in attempting something that is thoroughly impracticable. The people of the country are determined not to have a public debt. They will not carry a bond for the use of banks, and Mr. Windom's plan amounted to the Government taking the surplus that the banks wanted to get rid of at any time and paying to the banks two per cent interest for it. The people never will submit to it, and ought not to do so. It would be taxing them this two per cent and giving it to the banks. However good it might make the currency system, it never will be adopted. Bonds in banking must go.

When I say that fifty per cent of the currency must be bought of the Government, it amounts to this, that the banks will make that much less money than they would if they issued these notes, and that they will have to charge that much higher interest than they would if they could issue that much more currency and the people could get the advantage of it in less interest on the money they borrowed. But we cannot make the people think so, and therefore, while it is not ideal banking, while, as a financier, I would write a different bill from this, for a bill to get through Congress and be approved of by plain people, this is the best thing I can devise.

If this bill goes into operation, we shall have, finally, \$600,000,000 government notes instead of the \$324,000,000, as we now have, but they will not be legal tender; they will be bank bills, so far as the banks are concerned. They will have every advantage of greenbacks, so far as the greenbacker and the people are concerned, in what they want to reach. That is to say, the Government issues them to the banks and the banks are responsible for their "current redemption." No one is responsible for the "current redemption" of the present legal tender, and for that reason the present legal tender is a menace to our whole banking system. The new government note would be a legitimate part of it and save the people interest on \$600,000,000 of debt.

The bill further provides that the reserve of a bank must average what the law calls for, taking any month as a whole, but it can run just as low as the bank chooses on one day and just as high on any other day. A reserve that never can be touched is no reserve at all. It might just as well be anchored in the sea. A reserve is for use, and a bank ought to be permitted to use its reserve in certain contingencies.

There is nothing in the bill that is not as old as the Bank of England. There is no new thing in it, excepting new arrangements of proved expedients to bring it into a simple and practical working. The Bank of England's charter

has its double-headed government, but it is worked as one system and there is everything in this bank bill of any value that there is in that.

I repeat, with reference to the two kinds of currency bills, that banks will simply lose what, in my judgment, they ought to make on what they take from the Government, and the Government will get it. I do not think that is the way it ought to be, but it is the way we will have to take it if a bill is ever enacted. If we have a banking system that is national, the people must feel that the money they carry in their pockets day by day (which is half the total volume and generally more—it generally amounts to five-eighths or three-fourths) the Governments get the profit on, and not the banks. That is the only point in that provision.

Under the proposed bill this country could protect and keep its gold and defy Europe to bring us to a "silver measure of value," by preventing its shipment when the interests of the country demanded a stay in its shipment, as England protects her store of gold. Under our present banking system, with the Government responsible for maintaining gold payments and the banks at the mercy of the Government, and the United States treasury dependent on the banks for successful administration, it is impossible for the country to have any "measure of value metal" in legitimate touch with any one of our multitudinous forms of paper money. It is a physical impossibility for the Government to "maintain specie payment" for a day without the assistance of the banks.

Furthermore, it costs the people—the Government—a vast sum of money to maintain specie payments, even with the assistance of the banks as it is now doing, and the soundness of both the United States treasury and the banks is also in daily peril.

Under the bill proposed, the maintaining of specie payments or keeping the "measure of value metal" in touch with our paper money would not cost the Government or the banks one cent, and it would put in our hands precisely the

same means of defending our gold supply from shipment that England has successfully used for eighty years without a single failure. Only by enacting this bill, or some similar bill, can the vexatious silver coinage question be settled satisfactorily to the people, and all our paper money be alike.

This bill gives, in as high a degree as is possible in any law, the four things essential in "paper money:" First, safety; second, convertibility—current redemption; third, elasticity; fourth, uniformity, as the present bank charters expire.

J. H. WALKER.

House of Representatives.